

**SALT LAKE CITY  
SUBURBAN SANITARY DISTRICT #1**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2006 AND 2005**

**WITH**

**REPORT OF INDEPENDENT AUDITORS**

**SALT LAKE CITY SUBURBAN SANITARY DISTRICT #1  
TABLE OF CONTENTS**

<b>Report of Independent Auditors</b>	1
<b>Management's Discussion and Analysis</b>	3
<b>Financial Statements:</b>	
Balance Sheets	12
Statements of Revenues, Expenses and Changes in Net Assets	14
Statements of Cash Flows	16
Notes to Financial Statements	19
<b>Supplementary Information:</b>	
Impact Fee Reporting	35
<b>Other Reports:</b>	
Report of Independent Auditors on State Legal Compliance	36
Report on Internal Control over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with <u>Government Auditing Standards</u>	38



## **REPORT OF INDEPENDENT AUDITORS**

### **To the Board of Trustees of Salt Lake City Suburban Sanitary District #1**

We have audited the accompanying basic financial statements of Salt Lake City Suburban Sanitary District #1 as of December 31, 2006 and 2005, and for the years then ended as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Salt Lake City Suburban Sanitary District #1 as of December 31, 2006 and 2005, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated May 21, 2007 on our consideration of Salt Lake City Suburban Sanitary District #1's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audits.

**To the Board of Trustees of  
Salt Lake City Suburban Sanitary District #1  
Page 2**

Management's discussion and analysis, which follows this report, is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

We performed our audit to form an opinion on the basic financial statements taken as a whole. The supplementary information on Impact Fee Reporting is presented for additional analysis and is not a required part of the basic financial statements. This supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



**HUBER, ERICKSON & BOWMAN, LLC.**  
Salt Lake City, Utah  
May 21, 2007

## **SALT LAKE CITY SUBURBAN SANITARY DISTRICT #1**

### **Management's Discussion and Analysis**

**December 31, 2006 and 2005**

**Page 3**

As management of the Salt Lake City Suburban Sanitary District No. 1 (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2006. We encourage readers to consider the information presented here in conjunction with the financial statements and accompanying notes to enhance their understanding of the District's financial activities.

### **History and Background of District**

The District was formed in 1946 by the Salt Lake County Commission under state statutes as a Special Service District with authority to levy taxes, issue bonds, and construct a sewage collection and treatment system. Since major construction in 1954 the District has operated its own sewage transmission lines and treatment facility until 1978 when the District entered into an Interlocal Agreement with four other special service districts and two cities to create the Central Valley Water Reclamation Facility (CVWRF), a regionalized wastewater treatment facility in which the District owns a 24% undivided interest.

Today the District collects wastewater from a service area with boundaries on the north of approximately 2700 South from the Jordan River east to the mountains and on the south from the Jordan River at about 4100 South east on a diagonal to Highland Drive and 6200 South and then east to the mountains. This service area encompasses parts of unincorporated Salt Lake County, approximately half of The City of South Salt Lake, The City of Holladay, and a small portion of Murray City, thus serving a population of approximately 160,000 residents. The District owns, operates and maintains 8,879 manholes and 370.7 miles of sewer collection lines, which convey and deliver wastewater for treatment to the CVWRF located at 800 West Central Valley Road in the City of South Salt Lake.

### **Financial Highlights**

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$47,287,802 (total net assets). Of this amount, \$12,178,596 (District #1 Capital Assets) and the \$26,483,169 Investment in CVWRF Joint Venture (therefore classified as an Unrestricted Asset), represent land, wastewater collection and treatment systems, buildings, vehicles and equipment. The remaining \$8,626,037 of Unrestricted Net Assets primarily consist of operating cash and investment reserves maintained for emergencies, major repair and replacements, and capital projects. These reserves are also maintained in-lieu of funding depreciation and may be used to meet the District's obligations to citizens and creditors.

## **SALT LAKE CITY SUBURBAN SANITARY DISTRICT #1**

### **Management's Discussion and Analysis**

**December 31, 2006 and 2005**

**Page 4**

- ▶ The District's total net assets decreased by \$692,330 primarily attributable to depreciation of the District's capital assets and the capital assets of its investment in CVWRF joint venture. Depreciation is an unfunded non-cash expense.
- ▶ The District's total liabilities decreased by \$345,697 during the current fiscal year. This decrease is primarily the result of principal payments paid during the current year for bond fund draws made by CVWRF in prior years for which the District is obligated to repay.

### **Overview of the Financial Statements**

The District operates and accounts for its activities as an enterprise fund which is similar to a private business enterprise.

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves. The financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of the financial position of the District.

The statement of revenues, expenses, and changes in net assets presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused sick leave).

### **Notes to the financial statements**

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

### **Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$47,287,802 as of December 31, 2006.

**SALT LAKE CITY SUBURBAN SANITARY DISTRICT #1**  
**Management's Discussion and Analysis**  
**December 31, 2006 and 2005**

**Page 5**

The largest portion of the District's net assets, 75%, reflects unrestricted net assets. The remaining portion of the District's net assets, 25%, reflects net assets invested in capital assets (e.g., land, buildings, machinery, and equipment). The District uses the capital assets and its investment in CVWRF joint venture to provide services to citizens and, consequently, these assets are not available for future spending since the assets themselves cannot be liquidated. The District's investment in CVWRF joint venture represents 76% of unrestricted net assets.

**Salt Lake City Suburban Sanitary District No. 1 Net Assets**

	2006	2005	2004
Current and other assets	\$42,089,514	\$42,982,306	\$37,704,384
Capital assets (net of accumulated depreciation)	12,178,596	12,323,831	12,870,290
Total assets	54,268,110	55,306,137	50,574,674
Long-term liabilities outstanding	5,779,881	6,053,875	185,429
Other liabilities	1,200,427	1,272,130	1,068,959
Total liabilities	6,980,308	7,326,005	1,254,388
Net assets:			
Invested in capital assets, net of related debt	12,178,596	12,323,831	12,870,290
Unrestricted	35,109,206	35,656,301	36,449,996
Total net assets	\$47,287,802	\$47,980,132	\$49,320,286

During the years ended December 31, 2006 and 2005, the District's net assets decreased by \$692,330, and \$1,340,154, respectively. This decrease is a reflection of the District's policy of not funding depreciation.

Key elements of the change in net assets are as follows:

**Salt Lake City Suburban Sanitary District No. 1 Net Assets**

	2006	2005	2004
Operating Revenues:			
Sewer fees	\$3,630,000	\$3,579,103	\$2,456,466
Other	83,665	56,829	51,356
Total operating revenues	3,713,665	3,635,932	2,507,822

**SALT LAKE CITY SUBURBAN SANITARY DISTRICT #1**  
**Management's Discussion and Analysis**  
**December 31, 2006 and 2005**

**Page 6**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating Expenses:			
Wages and employee benefits	1,894,357	1,910,913	1,772,894
Operating expenses from CVWRF joint venture	2,348,268	2,217,362	2,159,282
Depreciation	839,544	843,193	813,575
Other	596,146	623,254	712,672
Total operating expenses	<u>5,678,315</u>	<u>5,594,722</u>	<u>5,458,423</u>
Net loss from operations	(1,964,650)	(1,958,790)	(2,950,601)
Non-Operating Revenues (Expenses):			
County property taxes	1,543,302	1,518,366	1,529,984
Interest income (expense) and other	646,947	472,345	244,909
Equity in loss from CVWRF joint venture	<u>(1,606,121)</u>	<u>(1,716,568)</u>	<u>(1,595,134)</u>
Total non-operating revenues (expenses)	<u>584,128</u>	<u>274,143</u>	<u>179,759</u>
Capital Contributions:			
Capacity fees	265,530	280,705	381,465
Developer contributed sewer lines	<u>422,662</u>	<u>63,788</u>	<u>30,158</u>
Total capital contributions	<u>688,192</u>	<u>344,493</u>	<u>411,623</u>
Decrease in net assets	(692,330)	(1,340,154)	(2,359,219)
Net assets – Beginning	<u>47,980,132</u>	<u>49,320,286</u>	<u>51,679,505</u>
Net assets – Ending	<u>\$47,287,802</u>	<u>\$47,980,132</u>	<u>\$49,320,286</u>

- ▶ Sewer fees increased by \$50,897 or 1.4% and \$1,122,637 or 45.5% for the years ended December 31, 2006 and 2005, respectively. The increase for the year ended December 31, 2006 is attributable to an increase in the number of new connections totaling 307. The increase for the year ended December 31, 2005 is attributable to an increase in the user charges from \$4.00 to \$6.00 and the number of new connections totaling 326.
- ▶ Property taxes increased by \$24,936 or 1.6%, and decreased by \$11,618 or .07%, during the years ended December 31, 2006 and 2005, respectively. The increase during the year ended December 31, 2006 is due to a slight increase in the County's tax base. The decrease during the year ended December 31, 2005 is due to a slight decrease in the County's tax base.
- ▶ Interest income from investments increased by \$269,075 and \$340,790 for the years ended December 31, 2006 and 2005, respectively. The increase is the result of interest received from bond revenue invested and an increase in interest rates.



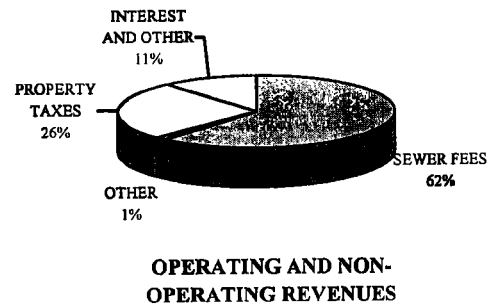
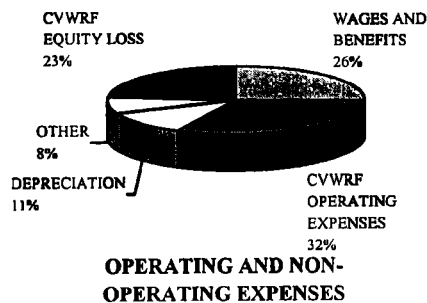
## SALT LAKE CITY SUBURBAN SANITARY DISTRICT #1

### Management's Discussion and Analysis

December 31, 2006 and 2005

Page 7

- ▶ Equity loss from CVWRF joint venture consists primarily of depreciation. The District's depreciation on its capital assets as well as the District's portion of CVWRF joint venture depreciation is \$2,463,308 and \$2,357,151 for the years ended December 31, 2006 and 2005, respectively, which is the primary reason for the decrease in net assets.
- ▶ Capital contributions increased by \$343,699 or approximately 100% for the year ended December 31, 2006. The increase is attributable to an increase in donated sewer lines that were finalized during 2006. Capital contributions decreased by \$67,130 or 17% for the year ended December 31, 2005. The decrease is mostly attributable to a decrease in capacity fees



### Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

### Service and Budgetary Highlights

During 2006, the District collected and treated at CVWRF 5.8 billion gallons of wastewater removing almost 3,500 dry tons of organic pollutants measured by the consumption of oxygen by bacteria (BOD) and another 3,517 tons of suspended solids (TSS). This represents a daily average of 15.9 million gallons per day of wastewater and 19,200 pounds per day each of BOD and TSS. This waste stream was generated by 26,909 billing accounts using 50,609 monthly units of service, a service unit being based on the wastewater and domestic pollutant load discharged by an average residence each month.

**SALT LAKE CITY SUBURBAN SANITARY DISTRICT #1****Management's Discussion and Analysis****December 31, 2006 and 2005****Page 8**

This service effort includes personnel for maintenance operations, engineering and inspection for construction compliance, industrial discharge pretreatment coordination, clerical, accounting and administration. This staff of 23 full-time and 1 part-time employees is governed by a three member Board of Trustees. Annual funding of operations is the result of adopting an annual budget after a public hearing. The budget is maintained on a cash basis. The following schedule summarizes the original budget, the amended budget, the actual and the variance:

**Salt Lake City Suburban Sanitary District #1****Budget vs. Actual****(Cash Basis)****Year Ended December 31, 2006**

	2006 Budget (Original)	2006 Budget (Amended)	Actual	Variance from Amended
<b>Revenues:</b>				
Operating revenue	\$ 3,708,370	\$ 3,708,370	\$ 3,683,196	\$ (25,174)
Property taxes	1,522,248	1,534,022	1,434,465	(99,557)
Interest income	706,011	706,011	825,266	119,255
Capacity fees	216,250	216,250	265,530	49,280
	6,152,879	6,164,653	6,208,457	43,804
<b>Expenses:</b>				
Sewer lines	1,419,198	1,429,472	1,340,588	88,884
Pretreatment	112,216	112,216	103,938	8,278
CVWRF facility	2,478,638	2,478,638	2,338,286	140,352
CVWRF facility additions	452,297	452,297	389,285	63,012
CVWRF bond redemptions	264,730	264,730	264,729	1
Administration	746,271	747,771	661,280	86,491
Interest expense	136,617	162,271	200,455	(38,184)
Engineering and inspection	406,214	406,214	410,728	(4,514)
Paying agent	840	840	740	100
Property additions	257,044	257,044	271,648	(14,604))
	6,274,065	6,311,493	5,981,677	329,816
<b>Excess (Deficit) of Revenues over Expenses</b>	(121,186)	(146,840)	226,780	373,620
Use of (addition to) District reserves	121,186	146,840	(226,780)	(373,620)
<b>Excess of Revenues over Expenses Including Reserves</b>	\$ -	\$ -	\$ -	\$ -

**SALT LAKE CITY SUBURBAN SANITARY DISTRICT #1****Management's Discussion and Analysis****December 31, 2006 and 2005****Page 9**

Differences between the amended budget and actual budget for the year 2006 can be briefly summarized as follows:

- ▶ \$ 14,000 increase in budgeted taxes M&O
- ▶ \$ 11,000 decrease in budgeted fee in lieu
- ▶ \$ 10,274 increase in budget for additional lining of lines
- ▶ \$ 1,500 increase in budget for miscellaneous items

Differences between the amended budget and actual for the year 2006 can be briefly summarized as follows:

- ▶ \$ 43,804 favorable variance for total revenue
- ▶ \$ 329,816 favorable variance for total expenses
- ▶ \$ 373,620 overall favorable variance

**Capital Assets**

The District's investment in capital assets for its business-type activities as of December 31, 2006 amounted to \$12,178,596 (net of accumulated depreciation). This investment in capital assets includes land, sewer systems, automobiles, and equipment.

**Salt Lake City Suburban Sanitary District No. 1 Capital Assets**  
**(Net of depreciation)**

	2006	2005	2004
Land	\$ 449,836	\$ 449,836	\$ 449,836
Sewer main	6,593,678	6,171,018	6,107,229
Sewer systems	20,358,692	20,358,692	20,358,692
Office & garage	1,920,580	1,912,984	1,912,984
Furniture & fixtures	860,249	860,249	837,264
Automobiles & trucks	1,497,387	1,436,639	1,435,430
Tools & equipment	813,486	793,506	711,262
Total	32,493,908	31,982,924	31,812,697
Less accumulated depreciation	(20,315,312)	(19,659,093)	(18,942,407)
Grand Total	<u>\$ 12,178,596</u>	<u>\$ 12,323,831</u>	<u>\$ 12,870,290</u>

## **SALT LAKE CITY SUBURBAN SANITARY DISTRICT #1**

### **Management's Discussion and Analysis**

**December 31, 2006 and 2005**

**Page 10**

#### **Reserve Funds**

The District held \$14,775,912 in reserves at the end of the current fiscal year. The reserve funds are maintained to provide liquid assets for funding repairs and reconstruction of District-owned infrastructure in the event of catastrophic events, which potentially could affect the District's ability to provide service to its residents.

#### **Reserve and Fee Structure**

The monthly service fee is \$6.00 per month. Since the District does not fund depreciation the Board of Trustees has set a reserve amount that the District maintains. (See above statement) The tax rate is .000201.

#### **Long Term Debt – DWQ Loan**

The Board of Trustees approved and entered into an agreement with CVWRF on April 21, 2005 along with six other local entities that make up CVWRF to obtain a loan from the Utah Division of Water Quality (DEQ) in an amount not to exceed Thirty Five Million Dollars (\$35,000,000). The District's share of the loan is \$7,127,327 or .20363789 percent.

As of December 31, 2006, CVWRF had received proceeds of \$30,585,000 and distributed \$23,000,000 of those proceeds to the member districts. The District's share of the distribution was \$4,408,643. The remaining \$7,585,000 was used by CVWRF to fund a facility project. The District's share of the \$7,585,000 was \$1,718,435. The first bond payment was made on May 12, 2006 in the amount of \$2,189,792. The District's share being \$445,926 consisted of \$264,729 principal and \$181,197 interest. Therefore, the total remaining amount of \$5,862,349 is classified as Due to CVWRF Joint Venture. The second bond payment \$2,218,182 is due May 1, 2007 with the District's share being \$451,706, consisting of \$272,875 principal and \$178,831 interest.

Terms of the loan are as follows:

1. Rate of 3%, Term 20 years
2. Creation of Reserve Funds: Dedicate existing reserve funds or establish new reserves, or utilize a combination of both for annual repayment of CVWRF loan.
3. Ownership of Reserve Funds: Reserve funds and all interest earned belong to SLCSSD#1.
4. Commitment to Fund: Agree to sufficiently fund all payment and funding requirements by CVWRF.

5. Notice of Cancellation of Reserve: Agrees to provide written notice for elimination or reduction in reserve.

Debt service requirements for the District's share of the loan proceeds are as follows:

**DWQ Loan Payment Schedule**

Year	Payment	Principle	Interest
2007	\$ 451,706	\$ 272,875	\$ 178,831
2008	445,634	274,913	170,721
2009	441,458	278,985	162,473
2010	449,381	295,277	154,104
2011	450,705	305,459	145,246
2012-2016	2,233,299	1,649,476	583,823
2017-2021	2,218,474	1,895,879	322,595
2022-2024	940,588	889,485	51,103
Total	\$ 7,631,245	\$ 5,862,349	\$ 1,768,896

**Requests for Information**

This financial report is designed to provide a general overview of the District's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Salt Lake City Suburban Sanitary District No. 1, Attention: Kerry S. Eppich, General Manager, 3932 South 500 East, Salt Lake City, UT 84107-1895.

**FINANCIAL STATEMENTS**

**SALT LAKE CITY SUBURBAN SANITARY DISTRICT #1****Balance Sheets****December 31, 2006 and 2005****Page 12**

	<u>ASSETS</u>	
	<u>2006</u>	<u>2005</u>
<b>Current Assets</b>		
Cash	\$ 115,576	\$ 140,077
Investments	8,507,836	8,219,775
Accounts receivable	249,473	222,853
Interest receivable	28,184	22,413
Tax collections receivable	27,303	21,299
Unremitted property liens	47,650	41,702
Prepaid insurance	11,524	13,730
Inventory-gas, oil, parts	30,448	12,101
<b>Total Current Assets</b>	<u>9,017,994</u>	<u>8,693,950</u>
<b>Investments</b>	<u>6,268,076</u>	<u>6,268,076</u>
<b>Investment in CVWRF Joint Venture</b>	<u>26,483,169</u>	<u>27,700,005</u>
<b>Working Capital Advances to CVWRF Joint Venture</b>	<u>320,275</u>	<u>320,275</u>
<b>Capital Assets</b>		
Land	449,836	449,836
Sewer systems and equipment	32,044,072	31,533,088
Less accumulated depreciation	<u>(20,315,312)</u>	<u>(19,659,093)</u>
<b>Net Capital Assets</b>	<u>12,178,596</u>	<u>12,323,831</u>
<b>Total Assets</b>	<u>\$ 54,268,110</u>	<u>\$ 55,306,137</u>

The accompanying notes are an integral part of these financial statements.

**SALT LAKE CITY SUBURBAN SANITARY DISTRICT #1****Balance Sheets (Continued)****December 31, 2006 and 2005****Page 13****LIABILITIES AND NET ASSETS**

	<b><u>2006</u></b>	<b><u>2005</u></b>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 19,809	\$ 8,801
Accounts payable - CVWRF joint venture	281,534	271,551
Excess property taxes payable	-	102,833
Deposits	40,224	40,424
Interest payable	119,500	119,086
Deferred revenue	466,485	464,186
Due to CVWRF Joint Venture - current portion	272,875	265,249
<b>Total Current Liabilities</b>	<b><u>1,200,427</u></b>	<b><u>1,272,130</u></b>
<b>Long-Term Liabilities</b>		
Accumulated sick leave	190,407	211,304
Due to CVWRF Joint Venture - long-term portion	5,589,474	5,842,571
<b>Total Long-Term Liabilities</b>	<b><u>5,779,881</u></b>	<b><u>6,053,875</u></b>
<b>Total Liabilities</b>	<b><u>6,980,308</u></b>	<b><u>7,326,005</u></b>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	12,178,596	12,323,831
Unrestricted	35,109,206	35,656,301
<b>Total Net Assets</b>	<b><u>47,287,802</u></b>	<b><u>47,980,132</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 54,268,110</u></b>	<b><u>\$ 55,306,137</u></b>

The accompanying notes are an integral part of these financial statements.



**SALT LAKE CITY SUBURBAN SANITARY DISTRICT #1**  
**Statements of Revenues, Expenses, and Changes in Net Assets**  
**Years Ended December 31, 2006 and 2005**

**Page 14**

	<u>2006</u>	<u>2005</u>
<b>Operating Revenues</b>		
Sewer fees	\$ 3,630,000	\$ 3,579,103
Inspection fees	4,669	3,075
Nose-on	3,050	2,850
Penalties	49,223	40,153
Miscellaneous operating revenue	26,723	10,751
<b>Total Operating Revenues</b>	<u>3,713,665</u>	<u>3,635,932</u>
<b>Operating Expenses</b>		
Wages and salaries	1,283,860	1,300,925
Employee benefits	610,497	609,988
Truck and auto expense	88,606	89,308
Line repairs and maintenance	199,652	153,126
Supplies	14,637	12,776
Electric power	16,096	13,914
Other utilities	12,810	12,460
Telephone	6,825	7,056
Uniforms	5,871	7,464
Emergency	2,422	3,089
Subscriptions and training	33,423	36,940
Insurance	56,546	53,494
Operating expenses from CVWRF joint venture	2,348,268	2,217,362
Building maintenance	20,312	23,654
Legal services	25,865	90,771
Audit and accounting fees	7,500	7,500
Nose-on expense	2,713	3,518
Blue Stakes	7,657	7,000
District trustee fee and expenses	10,500	10,500
Postage	18,190	17,791
Data processing	29,116	26,471
Depreciation	839,544	843,193

The accompanying notes are an integral part of these financial statements.

**SALT LAKE CITY SUBURBAN SANITARY DISTRICT #1****Statements of Revenues, Expenses, and Changes in Net Assets (Continued)****Years Ended December 31, 2006 and 2005****Page 15**

	<b>2006</b>	<b>2005</b>
Miscellaneous	23,901	14,172
Bad debt expense	1,504	-
Professional services	12,000	24,000
Election expenses	-	8,250
<b>Total Operating Expenses</b>	<b>5,678,315</b>	<b>5,594,722</b>
<b>Loss from Operations</b>	<b>(1,964,650)</b>	<b>(1,958,790)</b>
<b>Non-Operating Revenues (Expenses)</b>		
Interest income	831,037	561,962
Gain on sale of capital assets	17,505	32,691
County property taxes	1,543,302	1,518,366
Miscellaneous income (expense)	14	(2,482)
Paying agent fees	(740)	(740)
Interest expense	(200,869)	(119,086)
Equity loss from CVWRF joint venture	(1,606,121)	(1,716,568)
<b>Net Non-Operating Revenues</b>	<b>584,128</b>	<b>274,143</b>
<b>Net Loss Before Capital Contributions</b>	<b>(1,380,522)</b>	<b>(1,684,647)</b>
<b>Capital Contributions</b>		
Capacity fees	265,530	280,705
Developer contributed sewer lines	422,662	63,788
<b>Total Capital Contributions</b>	<b>688,192</b>	<b>344,493</b>
<b>Decrease in Net Assets</b>	<b>(692,330)</b>	<b>(1,340,154)</b>
<b>Net Assets - Beginning of Year</b>	<b>47,980,132</b>	<b>49,320,286</b>
<b>Net Assets - End of Year</b>	<b>\$ 47,287,802</b>	<b>\$ 47,980,132</b>

The accompanying notes are an integral part of these financial statements.

**SALT LAKE CITY SUBURBAN SANITARY DISTRICT #1****Statements of Cash Flows****Years Ended December 31, 2006 and 2005****Page 16**

	<u>2006</u>	<u>2005</u>
<b>Cash Flows From Operating Activities</b>		
Receipts from customers and users	3,683,396	3,712,597
Payments to vendors	(2,939,763)	(3,196,664)
Payments to employees	<u>(1,915,254)</u>	<u>(1,895,291)</u>
<b>Net Cash Used In Operating Activities</b>	<u>(1,171,621)</u>	<u>(1,379,358)</u>
<b>Cash Flows From Non-Capital Financing Activities</b>		
Property taxes collected	1,434,465	1,620,688
Miscellaneous non-capital items	<u>(726)</u>	<u>(3,222)</u>
<b>Net Cash Provided By Non-Capital Financing Activities</b>	<u>1,433,739</u>	<u>1,617,466</u>
<b>Cash Flows From Capital and Related Financing Activities</b>		
Acquisition of property and equipment	(271,648)	(232,946)
Cash received for capacity fees	265,530	280,705
Cash paid to CVWRF for bond repayment	(445,926)	-
Cash received from CVWRF for bond proceeds	<u>-</u>	<u>4,408,643</u>
<b>Net Cash (Used in) Provided by Capital and Related Financing Activities</b>	<u>(452,044)</u>	<u>4,456,402</u>

The accompanying notes are an integral part of these financial statements.

**SALT LAKE CITY SUBURBAN SANITARY DISTRICT #1****Statements of Cash Flows (Continued)****Years Ended December 31, 2006 and 2005****Page 17**

	<u>2006</u>	<u>2005</u>
<b>Cash Flows From Investing Activities</b>		
Net payments from purchases of investments	(288,061)	(5,950,501)
Interest received from investments	825,266	552,037
Net proceeds from sales of property	17,505	32,691
Net (contributions to) distributions from CVWRF joint venture	<u>(389,285)</u>	<u>688,056</u>
 <b>Net Cash Provided by (Used In) Investing Activities</b>	 <u>165,425</u>	 <u>(4,677,717)</u>
 <b>Net (Decrease) Increase in Cash</b>	 (24,501)	 16,793
 <b>Cash, Beginning of Period</b>	 <u>140,077</u>	 <u>123,284</u>
 <b>Cash, End of Period</b>	 <u>\$ 115,576</u>	 <u>\$ 140,077</u>

**Supplemental Disclosure of Noncash Investing, Capital,  
and Financing Activities**

Developer contributed sewer lines were \$422,662 and \$63,788 in 2006 and 2005, respectively.

The District recognized a loss from its investment in CVWRF joint venture of \$1,606,121 and \$1,716,568 in 2006 and 2005, respectively.

During 2006 and 2005, the District sold fully depreciated property with an original cost and accumulated depreciation of \$227,069 for \$17,505 and \$126,508 for \$32,692, respectively.

During 2006 and 2005, the District's obligation to fund debt service for bond proceeds used by CVWRF in construction of secondary clarifiers increased by \$19,257 and \$1,699,178, respectively.

The accompanying notes are an integral part of these financial statements.

**SALT LAKE CITY SUBURBAN SANITARY DISTRICT #1****Statements of Cash Flows****Years Ended December 31, 2006 and 2005****Page 18**

	<u>2006</u>	<u>2005</u>
<b>Reconciliation of Loss from Operations to Net Cash Used in Operating Activities</b>		
Loss from Operations	\$ (1,964,650)	\$ (1,958,790)
Adjustments to reconcile loss from operations to net cash used in operating activities:		
Depreciation	839,544	843,193
(Increase) decrease in assets:		
Accounts receivable	(26,620)	13,076
Unremitted tax liens	(5,948)	(1,868)
Prepaid insurance	2,206	(13,730)
Inventory	(18,346)	(3,116)
Increase (decrease) in liabilities:		
Accounts payable	20,991	(343,426)
Deposits liability	(200)	4,224
Deferred revenue	2,299	65,458
Accumulated sick leave liability	(20,897)	25,875
Accrued payroll and taxes	-	(10,254)
<b>Net Cash Used In Operating Activities</b>	<u><u>\$ (1,171,621)</u></u>	<u><u>\$ (1,379,358)</u></u>

The accompanying notes are an integral part of these financial statements.

## 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Salt Lake City Suburban Sanitary District #1 (the District) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by the District are described below:

### Reporting Entity

The Salt Lake City Suburban Sanitary District #1, (the District) is an agency of the State of Utah organized during 1946 as a special service district for the purpose of providing sewer services. The State of Utah has no oversight responsibility over the District; therefore, the District is not reported as a component unit of the State of Utah. The District has no oversight responsibilities over any other government entities.

### Measurement Focus and Basis of Accounting

The District is an enterprise fund, which is included under the proprietary fund type. Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Proprietary funds are accounted for on the flow of economic resources measurement focus and use of accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, the District applies all applicable Financial Accounting Standards Board Statements and Interpretations issued on or before November 30, 1989, except for those that conflict with or contradict GASB.

On January 1, 2004, the District adopted the provisions of GASB Statement No. 34 "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*." Statement 34 established standards for external financial reporting for all state and local governmental entities which includes a statement of net assets or balance sheet, a statement of revenues, expenses, and changes in net assets and a statement of cash flows. It requires the classification of net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

**SALT LAKE CITY SUBURBAN SANITARY DISTRICT #1**

**Notes to Financial Statements**

**December 31, 2006 and 2005**

**Page 20**

**1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Invested in capital assets, net of related debt* – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

*Restricted* – This component of net assets consists of constraints placed on the net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

**Inventory**

Inventory is valued using the first-in-first-out method (FIFO). Inventory is recorded at the lower of cost or market. Obsolete inventory is written off in the period it is deemed worthless.

**Investments**

Investments are carried at market value or cost where market value is not determinable. Investments are amortized from the date of purchase to scheduled maturity dates and the unamortized amounts are included in the cost of the investments.

The District has certain reserves set aside to provide for future sewer line and plant expansion. The funding philosophy of the District is to have reserves available for projects that may arise rather than bond again or use debt financing. In 1989, the District's Board of Trustees established specific reserves to provide funds for lines and plant renewal, upgrading and expansion to insure sufficient capacity for future growth, and to meet requirements mandated by the Utah State Board of Health and the United States Environmental Protection Agency. Accordingly, two special accounts were created with an escrow agent for the “Dedicated Sewer Line Repair, Replacement and Expansion Fund” and the “Dedicated Treatment Plant Repair, Replacement and Expansion Fund”. These investments consist of investments in the Utah Public Treasurer's Investment Fund and are classified as non-current investments in the balance sheet.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets are recorded at either historical cost or estimated historical cost. Normal maintenance and repairs, which neither materially add to the value of the property nor appreciably prolong its life, are charged to expense as incurred. The net book value of property sold, or otherwise disposed of, is removed from the property and accumulated depreciation accounts and the resulting gain or loss is included in income.

Depreciation of capital assets is computed using the straight-line method over the following estimated useful lives:

Sewer mains and system	50 years
Office building, garage and improvements	5-40 years
Furniture and fixtures	8 years
Automobile and trucks	5 years
Tools and equipment	8 years

Deferred Revenue

Sewer fees are billed to customers in advance of the period in which the expenses are to be incurred. Those sewer fees received in advance of the period of expense are shown in the accompanying financial statements as deferred revenue. Sewer fees are recognized as revenue as they are earned throughout the year.

Contributed Sewer Lines

The District receives title to various sewer lines that have been constructed by real estate developers. The District must certify that all sewer lines meet required specifications. Upon certification, the District records the fair value of the sewer lines as property and are depreciated under the depreciation policies of the District.



# **SALT LAKE CITY SUBURBAN SANITARY DISTRICT #1**

## **Notes to Financial Statements**

**December 31, 2006 and 2005**

**Page 22**

### **1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### Vacation, Sick Leave and Other Compensated Absences

District employees are entitled to certain compensated absences based on their length of employment. Vacation does not accumulate from year to year. Unused sick leave can be accumulated up to 1,080 hours and must be used by employees at retirement as follows: 1) sick leave must be cashed out at one fourth the accumulated value, and 2) the remaining accumulated value must be used to pay for health care premiums from retirement date until fully expended, the balance is also available for a Medicare supplement until fully expended. Employees that are terminated before retirement forfeit any sick leave benefits.

#### Revenues and Expenses

Revenues and expenses are distinguished between operating and non-operating items. Operating revenues generally result from providing services in connection with the District's principal ongoing operations. The principal operating revenues of the District are sewer fees for conveyance and wastewater treatment services. Although property tax revenues are for maintenance and operations, they are classified as non-operating revenues in accordance with GASB 34 and GASB 9.

Operating expenses include the costs associated with the conveyance and treatment of wastewater, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

#### Pension Plans

The District participates in the State Retirement System. Pension cost is combined with employee benefits and is recorded on an accrual basis. The District's policy is to fund pension costs as they occur.

#### Property Tax Revenues

Property taxes are levied on January 1st based on the assessed value of property as listed on the previous May 31st. Assessed values are an approximation of market value. The county assessor must make a valuation of all real property every year. Property taxes are delinquent after November 30. The District's tax rate for 2006 and 2005 was .000201 and .000233, respectively. The statutory maximum set by the state is .0008 for operations and maintenance. There is no maximum for reduction of general obligation bonds.

**1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Budgetary Accounting

For management and control purposes, the District adopts and maintains an annual budget, which is maintained on a cash basis. Items budgeted, but not expended, are not carried over to succeeding years. Each budget item must be re-approved each year.

Income Taxes

The District is exempt from all federal and state income taxes as a political division created by Utah State Law.

Reclassifications

Certain reclassifications were made to the December 31, 2005 financial statements in order to conform to the December 31, 2006 financial statement presentation.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**2. DEPOSITS AND INVESTMENTS**

The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the state and review the rules adopted under the authority of the State of Utah Money Management Act that relate to the deposit and investment of public funds.

The District follows the requirements of the Utah Money Management Act (*Utah Code*, Section 51, Chapter 7) in handling its depository and investment transactions. The Act requires the depositing of District funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

**SALT LAKE CITY SUBURBAN SANITARY DISTRICT #1**

**Notes to Financial Statements**

**December 31, 2006 and 2005**

**Page 24**

**2. DEPOSITS AND INVESTMENTS (CONTINUED)**

The balance sheet captions, which relate to deposits and investments, are summarized as follows:

	<u>2006</u>	<u>2005</u>
Cash	\$ 115,576	\$ 140,077
Investments	8,507,836	8,219,775
Non-current investments	<u>6,268,076</u>	<u>6,268,076</u>
	<u>\$14,891,488</u>	<u>\$14,627,928</u>

Deposits

*Custodial Credit Risk*

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk. At December 31, 2006 and 2005, the carrying amount of the District's cash was \$115,576 and \$140,077; respectively, and the bank balance was \$305,040 and \$292,985, respectively. Of the bank balance, \$100,000 was covered by Federal depository insurance and the remaining balances were held in a sweep account invested in short-term U.S. Government Securities and, therefore, may be exposed to certain credit risk.

Investments

The Money Management Act defines the types of securities authorized as appropriate investments for the District and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the District to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse purchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Services or Standard & Poor's; bankers' acceptances; obligations of the United State Treasury including bills, notes, and bonds; bonds, notes or other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund.

**SALT LAKE CITY SUBURBAN SANITARY DISTRICT #1****Notes to Financial Statements****December 31, 2006 and 2005****Page 25****2. DEPOSITS AND INVESTMENTS (CONTINUED)**Investments (Continued)

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, *Utah Code Annotated*, 1953, as amended. The Act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses – net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of pool shares.

As of December 31, 2006, the District had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
State of Utah Public Treasurer's Investment Fund	\$14,775,912	\$14,775,912			

As of December 31, 2005, the District had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
State of Utah Public Treasurer's Investment Fund	\$14,487,851	\$14,487,851			

## 2. DEPOSITS AND INVESTMENTS (CONTINUED)

### *Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. Except for funds of Institutions of Higher Education acquired by gifts, grants, or the corpus of funds functioning as endowments, the Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptances, fixed rate negotiable deposits, and fixed rate corporate obligations to 270-365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding 2 years.

### *Credit Risk*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's policy for reducing its exposure to credit risk is to comply with the State's Money Management Act previously discussed. As of December 31, 2006 and 2005, the District's investments in the State of Utah Public Treasurer's Investment Fund were unrated.

### *Concentration of Credit Risk*

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District's policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5%-10% depending upon the total dollar amount held in the portfolio.

### *Custodial Credit Risk*

For an investment, custodial credit risk is the risk that, in the event of failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have a formal policy for custodial credit risk.

# SALT LAKE CITY SUBURBAN SANITARY DISTRICT #1

## Notes to Financial Statements

December 31, 2006 and 2005

Page 27

### 3. CAPITAL ASSETS

A summary of the District's capital asset activity and accumulated depreciation for the years ended December 31, 2006 and 2005 follows:

December 31, 2006

CAPITAL ASSETS				
	Balance 12/31/05	Additions	Deletions	Balance 12/31/06
Assets not being depreciated:				
Land	\$ 449,836	-	-	449,836
	449,836	-	-	449,836
Assets being depreciated:				
Sewer main	6,171,018	422,660	-	6,593,678
Sewer systems	20,358,692	-	-	20,358,692
Office & garage	1,912,984	7,596	-	1,920,580
Furniture & fixtures	860,249	-	-	860,249
Automobiles & trucks	1,436,639	287,816	(227,068)	1,497,387
Tools & equipment	793,506	19,980	-	813,486
	<u>31,533,088</u>	<u>738,052</u>	<u>(227,068)</u>	<u>32,044,072</u>
	<u>\$ 31,982,924</u>	<u>\$ 738,052</u>	<u>\$ (227,068)</u>	<u>\$ 32,493,908</u>

ACCUMULATED DEPRECIATION				
	Balance 12/31/05	Additions	Deletions	Balance 12/31/06
Sewer main	\$ 2,891,316	\$ 123,533	\$ -	\$ 3,014,849
Sewer systems	13,357,925	400,006	-	13,757,931
Office & garage	975,977	56,748	-	1,032,725
Furniture & fixtures	756,486	46,980	-	803,466
Automobiles & trucks	1,066,486	162,699	(183,325)	1,045,860
Tools & equipment	610,903	49,578	-	660,481
	<u>\$ 19,659,093</u>	<u>\$ 839,544</u>	<u>\$ (183,325)</u>	<u>\$ 20,315,312</u>

**SALT LAKE CITY SUBURBAN SANITARY DISTRICT #1**

**Notes to Financial Statements**

**December 31, 2006 and 2005**

**Page 28**

**3. CAPITAL ASSETS (CONTINUED)**

December 31, 2005

CAPITAL ASSETS				
	Balance 12/31/04	Additions	Deletions	Balance 12/31/05
Assets not being depreciated:				
Land	\$ 449,836	-	-	449,836
	449,836	-	-	449,836
Assets being depreciated:				
Sewer main	6,107,229	63,788	-	6,171,018
Sewer systems	20,358,692	-	-	20,358,692
Office & garage	1,912,984	-	-	1,912,984
Furniture & fixtures	837,264	22,985	-	860,249
Automobiles & trucks	1,435,430	127,717	(126,508)	1,436,639
Tools & equipment	711,262	82,244	-	793,506
	<u>31,362,861</u>	<u>296,734</u>	<u>(126,508)</u>	<u>31,533,088</u>
	<u>\$ 31,812,697</u>	<u>\$ 296,734</u>	<u>\$ (126,508)</u>	<u>\$ 31,982,924</u>

ACCUMULATED DEPRECIATION				
	Balance 12/31/04	Additions	Deletions	Balance 12/31/05
Sewer main	\$ 2,768,636	\$ 122,680	\$ -	\$ 2,891,316
Sewer systems	12,950,751	407,174	-	13,357,925
Office & garage	918,561	57,416	-	975,977
Furniture & fixtures	703,251	53,235	-	756,486
Automobiles & trucks	1,048,769	144,225	(126,508)	1,066,486
Tools & equipment	552,439	58,464	-	610,903
	<u>\$ 18,942,407</u>	<u>\$ 843,193</u>	<u>\$ (126,508)</u>	<u>\$ 19,659,093</u>

# **SALT LAKE CITY SUBURBAN SANITARY DISTRICT #1**

## **Notes to Financial Statements**

**December 31, 2006 and 2005**

**Page 29**

### **4. PROPERTY TAX REVENUE**

The District's tax rate is .000201. During 1999, the District repaid all of its general obligation bonds and the portion of property tax revenue that was originally allocated to repay the general obligation bonds was reallocated, by board resolution, to meet the operating and maintenance needs of the District.

Property tax revenues are derived from four major sources: (1) general property assessments on real estate and improvements to real estate, (2) personal property assessments on mobile homes, business equipment, etc., (3) age based assessments on motor vehicles, and (4) delinquent tax collections, interest, and fees.

Property tax revenue for the years ended December 31, 2006 and 2005 was as follows:

	<u>2006</u>	<u>2005</u>
Total property taxes for the year	<u>\$ 1,543,302</u>	<u>\$ 1,518,366</u>
Property tax receivable at December 31	<u>\$ 27,303</u>	<u>\$ 21,299</u>

### **5. UNREMITTED PROPERTY LIENS**

Unremitted property liens as of December 31, 2006 and 2005, in the amount of \$47,650 and \$41,702 respectively, represent the total amount of past due accounts receivable which have been referred to the Salt Lake County Treasurer's office for attachment to the related real estate property as liens. However, in 2004 the Utah State Legislature passed HB56 which prohibits the District from collecting from the current owner a previous owner's arrearage for sewer service provided to the property before the current owner's ownership, absent a valid lien. Most of these amounts may not be collectible because of the District's inability to terminate or monitor service and track owners if they move without paying for their service. This will make it necessary to establish a reserve for uncollectible accounts in the future.

### **6. INVESTMENT IN CVWRF JOINT VENTURE**

During 1978, the District entered into a joint venture with four other special districts and two cities. The joint venture was organized under the name of Central Valley Water Reclamation Facility (CVWRF) to operate a regional sewage treatment facility for the benefit of all its members. The joint venture is owned by each of the seven members and is administered by a seven-member board. Each member appoints one member to the board, and voting power is not related to ownership. Therefore, each member is equal to another for voting privileges. The joint venture is responsible for adopting a budget and financing its operations subject to the approval



**SALT LAKE CITY SUBURBAN SANITARY DISTRICT #1****Notes to Financial Statements****December 31, 2006 and 2005****Page 30****6. INVESTMENT IN CVWRF JOINT VENTURE (CONTINUED)**

by each of the seven members. Each member is billed its share of operation and capital costs based on the members usage and ownership percentage.

The District incurred the following costs from the CVWRF joint venture:

	<u>2006</u>	<u>2005</u>
Treatment costs	\$ 1,756,320	\$ 1,689,561
Administration	330,001	282,237
Pretreatment costs	11,107	7,829
Laboratory	134,019	127,573
Interception monitoring	11,604	8,093
Engineering and safety	<u>105,217</u>	<u>102,069</u>
	<u>\$ 2,348,268</u>	<u>\$ 2,217,362</u>

The District accounts for its investment in CVWRF joint venture using the equity method of accounting. The following is a summary of the CVWRF joint venture's financial position as of December 31, 2006 and 2005, and the results of its operations for the years then ended. The amounts at December 31, 2006 and 2005 were obtained from audited financial statements provided by Central Valley Water Reclamation Facility and are available on the Utah State Auditor's website at [www.sao.state.ut.us](http://www.sao.state.ut.us).

6. INVESTMENT IN CVWRF JOINT VENTURE (CONTINUED)

	2006	2005
Current assets	\$ 5,499,183	\$ 5,686,963
Capital assets, net	105,968,975	110,173,934
Notes receivable	178,057	211,529
Due from members	27,945,000	21,700,000
Other assets	<u>95,516</u>	<u>93,711</u>
Total assets	<u>\$ 139,686,731</u>	<u>\$ 137,866,137</u>
Current liabilities	\$ 3,423,753	\$ 3,007,959
Noncurrent liabilities	29,373,057	30,661,529
Net assets	<u>106,889,921</u>	<u>104,196,649</u>
Total liabilities and equity	<u>\$ 139,686,731</u>	<u>\$ 137,866,137</u>
Operating revenues	\$ 10,365,987	\$ 9,475,300
Operating expenses	<u>17,202,699</u>	<u>16,035,188</u>
Net operating loss	(6,836,712)	(6,559,888)
Other	<u>355,996</u>	<u>217,555</u>
Net loss	<u>\$ (6,480,716)</u>	<u>\$ (6,777,443)</u>

The member entities have decided not to fund depreciation and amortization through contributions to the joint venture. The offset is, in effect, a reduction of member contributions for the CVWRF joint venture in the equity section and reflects the need for contributions in future years.

**6. INVESTMENT IN CVWRF JOINT VENTURE (CONTINUED)**

The District's investment in CVWRF joint venture for the years ended December 31, 2006 and 2005 is \$26,483,169 and \$27,700,005, respectively. Change in the investment is summarized as follows:

Investment at January 1, 2006	\$ 27,700,005
Capital contributions	372,709
Investment in digesters	16,576
Loss from CVWRF joint venture	(1,606,121)
Investment at December 31, 2006	<u>\$ 26,483,169</u>

**7. DUE TO MEMBER**

During the 2005 year, the CVWRF issued taxable sewer revenue bonds totaling \$35,000,000 to fund the post-1993 ownership of the treatment facility. The bonds bear interest at 3.00%. The District's share of the bonds is \$7,127,327.

A portion of the revenue bonds issued during 2005 was distributed to the members. Although the bonds are in the name of CVWRF, the members are responsible to fund debt service requirements over the life of the bonds. The amount distributed to members in 2005 was \$23,000,000. Additional bond funds drawn down as of December 31, 2006 (\$7,585,000) were used to construct secondary clarifiers at CVWRF. The District's share of the \$23,000,000 is \$4,408,643. The District's share of the \$7,585,000 is \$1,718,435. The first bond payment, in the amount of \$2,189,792, was made on May 12, 2006; the District's portion was \$445,926 consisting of \$264,729 principal and \$181,197 interest. Therefore, the District's total obligation for debt service at December 31, 2006 is \$5,862,349 (\$5,589,474 long-term and \$272,875 current).

The District's portion of revenue bond debt service requirements to maturity are as follows:

Year	Payment	Principle	Interest
2007	\$ 451,706	\$ 272,875	\$ 178,831
2008	445,634	274,913	170,721
2009	441,458	278,985	162,473
2010	449,381	295,277	154,104
2011	450,705	305,459	145,246
2012-2016	2,233,299	1,649,476	583,823
2017-2021	2,218,474	1,895,879	322,595
2022-2024	940,588	889,485	51,103
Total	<u>\$ 7,631,245</u>	<u>\$ 5,862,349</u>	<u>\$ 1,768,896</u>

## **SALT LAKE CITY SUBURBAN SANITARY DISTRICT #1**

### **Notes to Financial Statements**

**December 31, 2006 and 2005**

**Page 33**

#### **8. PENSION PLAN**

**Plan Description:** The District contributes to the Local Governmental Noncontributory Retirement System (Noncontributory System), which is a cost-sharing multiple-employer defined benefit pension plan administered by the Utah Retirement Systems (Systems). The Systems provide refunds, retirement benefits, annual cost of living adjustment, and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (The Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for State and School Noncontributory Retirement System. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

**Funding Policy:** The District is required to contribute 11.09% of the annual covered salary for the period beginning January 2006 through June 2006, and 11.59% of the annual covered salary for the period beginning July 2006 through December 2006. The contribution rates are actuarially determined rates and contribution requirements are authorized by statute and specified by the Board.

The District's contributions to the Noncontributory System for the years ending December 31, 2006, 2005, and 2004 were \$141,784, \$143,192, and \$123,770, respectively. The contributions were equal to the required contributions for each year.

The District also participates in the State's 401(k) Plan. Employees covered by any of the State retirement plans are eligible to participate. The Board of the Systems administers this plan.

The District incurred expense for employer-paid contributions to the 401(k) Plan for the years ended December 31, 2006, 2005, and 2004 of \$33,405, \$34,216, and \$31,667, respectively.

#### **9. COMMITMENTS AND CONTINGENCIES**

At times the District has been involved in unasserted claims or assessments in the ordinary course of operations. Any potential gain or loss contingencies resulting from such matters are not considered to be material.

**SALT LAKE CITY SUBURBAN SANITARY DISTRICT #1**

**Notes to Financial Statements**

**December 31, 2006 and 2005**

**Page 34**

**10. EXCESS PROPERTY TAXES PAYABLE**

Excess property tax revenues received from Salt Lake County during the years ended December 31, 2006 and 2005, were \$0 and \$102,833, respectively.

**SUPPLEMENTARY INFORMATION**

**SALT LAKE CITY SUBURBAN SANITARY DISTRICT #1****Impact Fee Reporting****Year Ended December 31, 2006****Page 35**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
CONNECTION FEES COLLECTED	\$ 265,530	\$ 280,705	\$ 381,465
CAPITAL EXPENDITURES	\$ *	\$ *	\$ *

\*- offset to previously incurred capital expenditures

*Utah Code 11-36-203,3b states that a local political subdivision may include a provision in the impact fee enactment that "imposes an impact fee for public facility costs previously incurred by a local political subdivision to the extent that new growth and development will be served by the previously constructed improvement".*

**OTHER REPORTS**





## **REPORT OF INDEPENDENT AUDITORS ON STATE LEGAL COMPLIANCE**

To the Board of Trustees of  
Salt Lake City Suburban Sanitary District #1

We have audited the financial statements of Salt Lake City Suburban Sanitary District #1, for the years ended December 31, 2006 and 2005, and have issued our report thereon dated May 21, 2007. Our audit included test work on the District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Cash Management  
Purchasing Requirements  
Budgetary Compliance  
Truth in Taxation

Other Compliance Requirements  
Special Districts  
Impact Fees

The District did not receive any major or nonmajor State grants during the years ended December 31, 2006 and 2005.

The management of Salt Lake City Suburban Sanitary District #1 is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audits provide a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

**To the Board of Trustees of  
Salt Lake City Suburban Sanitary District #1  
Page 37**

In our opinion, Salt Lake City Suburban Sanitary District #1, complied in all material respects, with the general compliance requirements identified for the years ended December 31, 2006 and 2005.

This report is intended for the use of the District's management, Board of Trustees and applicable state and federal agencies. However, this report is a matter of public record and its distribution is not limited.



**HUBER, ERICKSON & BOWMAN, LLC.**  
**Certified Public Accountants**  
**May 21, 2007**

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



To the Board of Trustees of  
Salt Lake City Suburban Sanitary District #1:

We have audited the financial statements of Salt Lake City Suburban Sanitary District #1 as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated May 21, 2007. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audits, we considered Salt Lake City Suburban Sanitary District #1's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Facility's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Facility's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

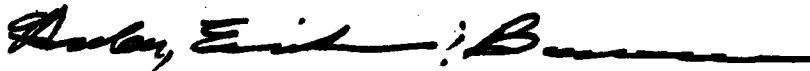
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies or material weaknesses, as defined above.

To the Board of Trustees of  
Salt Lake City Suburban Sanitary District #1  
Page 39

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Salt Lake City Suburban Sanitary District #1's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance and other matters that are required to be reported under Government Auditing Standards.

This report is intended for the information and use of the Board of Trustees, management, and applicable federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties.



HUBER, ERICKSON & BOWMAN, LLC.  
Certified Public Accountants  
May 21, 2007